RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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January 23, 1991 **LETTER 1061**

Jan. 11 DJIA 2501.43; PTI 3130; A-D Ratio -17.51
Jan. 18 DJIA 2646.78; PTI 3143; A-D Ratio -17.07
Dow Yield: 3.90%; Dow P/E: 13.3; DowPow: -651
Dow 200-day MA: 2675; Dow 30-day MA: 2579
Dow Book Value: 1276; PTI 89-day MA: 3171
Percentage of Undervalued Blue-chips: 28%

THE PICTURE: Remember the old song, "What a difference a day makes"? Believe it. On January 15 ("deadline day"), all was gloom, as the world waited for what Saddam Hussein called "the mother of all wars." On January 16, the US and its allies mounted a "surprise aerial attack." And what was the great surprise? It was that the attack appeared to come as a great surprise to the Iraqis.

What happened? It seems to me that there are only two reasonable explanations. The first is that Saddam and his military didn't believe that Mr. Bush was serious when he stated that he would drive Saddam out of Kuwait.

The second explanation is one that appeared in Notes & Quotes (Letter 1055). It's a quote from my old school mate Don Morris (he spent 17 years with the CIA and writes the *Donald Morris Letter*): "Israel has a low opinion of Iraqi military power. The American military only recently began to scale down its initial 'one million battle-hardened men, 5,000 tanks, 550 jet fighters' goblin' -- Israel did so long ago. Of the one million Iraqi men, at most 100,000 are battle-hardened professionals (and even these have no experience in mobile warfare), plus about 50 competent, French-trained pilots. There is virtually no air defense in the sense of an integrated, coordinated system . . . The Israeli military (with more reason to know than we do) regard Iraqi forces as a 'paper tiger,' the worst in the Mideast, and one which America has no reason to fear." Russell comment: It seems that Israeli intelligence knew what they were talking about.

MARKET: This is a very emotional market, and I mean VERY. Consider this: On December 31, 1990 (last trading day of the year), the Dow closed at 2633.66. Six trading days later, on January 9, the Dow closed at 2470.30. This represented a decline of 163.36 points or **6%.** That 6% drop represented the worst "first six days of the year" performance in the history of the stock market.

I don't adhere strictly to the "January barometer" theory, but its rationale and history are interesting. The concept is that in early January investors forget the past and look ahead to the new year. If they like what they see, they accumulate stocks. If they dislike what they see, they distribute stocks.

The theory states that what happens in the market during the first week of January tends to set the tone for all of January, and what happens in the month of January sets the tone for the whole year. My friend, Marty Zweig, using the S&P 500, did some of his usual excellent research on the so-called January barometer.

In his latest letter, Marty notes that the S&P 500 dropped a record 5.9% during the first six days of 1991. Since 1926, there have only been six other years when the S&P dropped 3% or more during the first six trading days. Those years were 1934, 1939, 1962, 1974, 1978 and 1982. From the sixth day of the year to the low for that year, Marty states that the S&P lost an average (for those six instances) of 17%. In other words, a sharp drop over the first six days of January has led the way to substantial further losses in five out of six previous cases. The single exception occurred in 1978, when the Dow loss (following the initial six-day drop) to the subsequent low was a minor 5%.

But at this point we have to ask a few questions: (1) Was the market's early drop this year simply an emotional, fear-ridden response to the coming war? (2) Were recession fears part of the market's initial response? (3) Was the public too fearful, and was that fear misplaced? I don't think anyone can answer those questions at this point, but I suggest that subscribers take the following paragraph to heart.

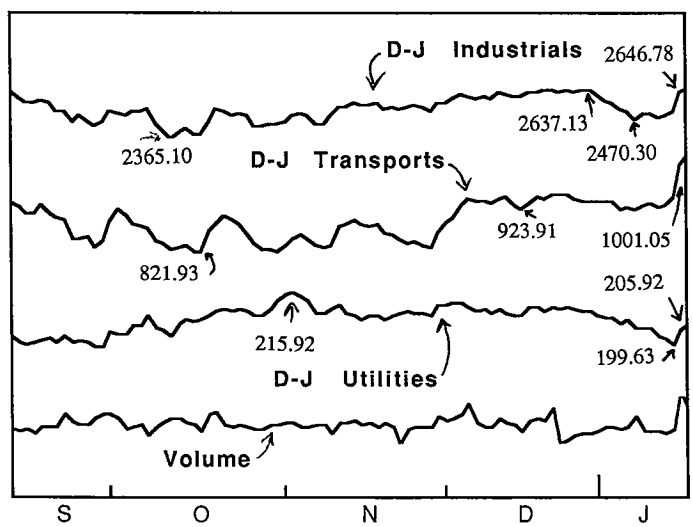
This is still a primary bear market, and although this may sound cold and unfeeling -- as far as history is concerned, the war will only be a chapter and an interruption in an ongoing primary bear market.

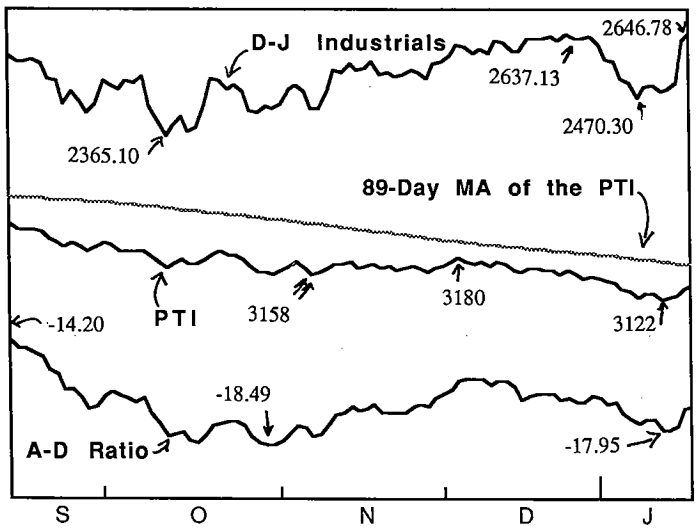
Downside Resistance: At and near the January 15 lows,this market was showing real resistance to further decline. The resistance was evidenced in two main areas. The first was the stubborn reluctance of the D-J Transportation Average to follow the Industrials down (see page 1 chart of the Averages). The second area of resistance was seen in the daily new lows on the NYSE -- they refused to expand as the market worked lower. Both of these phenomena acted on the market like a taunt rubber band that was being stretched to the limit. That rubber band wanted to snap back, and the surprisingly good news on the war effort provided the snap.

To go into greater detail, my five-day moving average of new lows on the NYSE rose to a 1990 high of **348** on September 27. But by January 15, with the advance-decline ratio within striking distance of its bear market low, the daily new lows had contracted dramatically to a five-day total of only **54.**

This presented a most interesting picture. It was the picture of a stock market that had been beaten down by war fears, an emotional situation. Yet the all-important technicals were NOT confirming the market's emotional decline.

The only way to interpret this action is that by January 15 the stock market had fully discounted what it perceived to be the immediate peril in both the war situation and the recession. In other words, the stock market, despite all the fear and bad news, was





increasingly resisting decline, and only another spate of fearful bad news could have driven the market down from its January 15 lows.

EMOTIONAL MARKETS: So here's the picture as I see it. We are witnessing a bear market that was (and is) being interrupted by war hopes and war fears. It's a very tricky situation for investors, and for that reason I would not want to be short this market nor would I want to own stocks in this market. I might add that I DEFINITELY DON'T LIKE MARKETS THAT ARE RULED BY FEAR, RUMORS AND THE SPOT NEWS OF THE DAY -- which is exactly the kind of market that we now have.

DECEPTIVE: I want to start here with a warning to my subscribers and also to the many other editors, publishers and investment advisors who read these Letters. Bear markets don't work the way bull markets do. Many of the indicators that you followed so logically and successfully during the 1974-89 bull market just aren't going to work in this bear market. And this is particularly true of the so-called indicators of market sentiment.

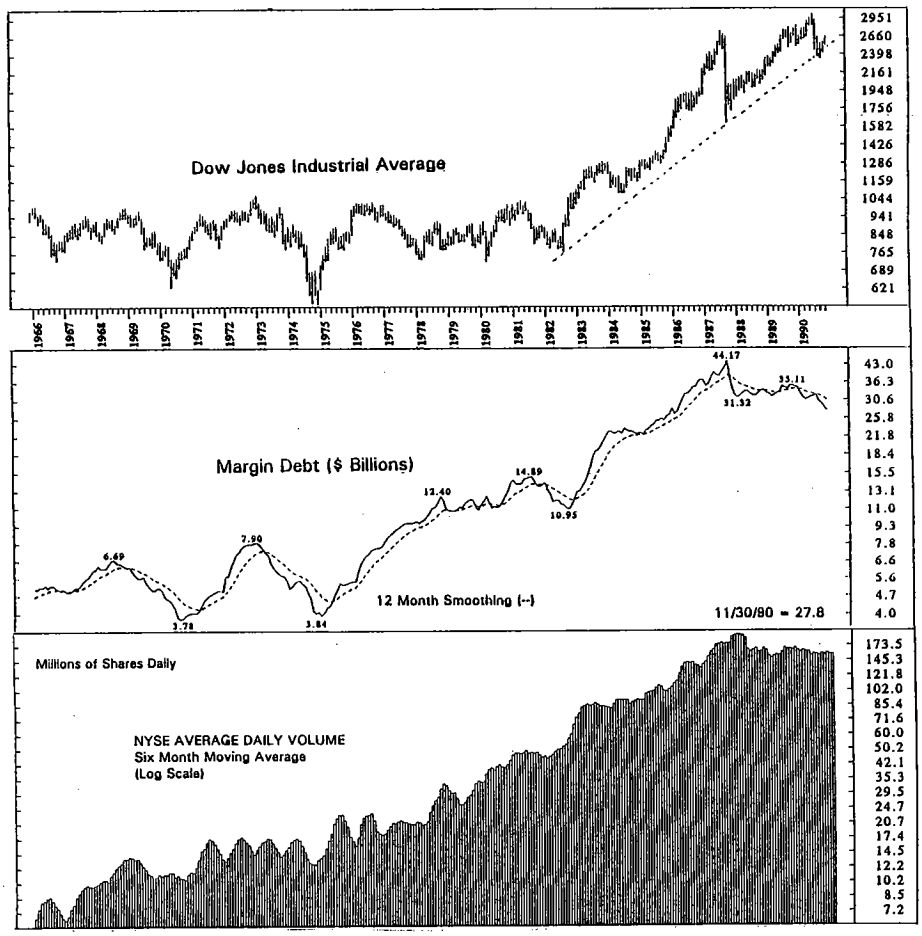
For this reason, I think you're going to see a great deal of costly premature bullishness as various advisors suddenly announce "buy spots" and "big value areas" long before this bear market is anywhere near its final bottom.

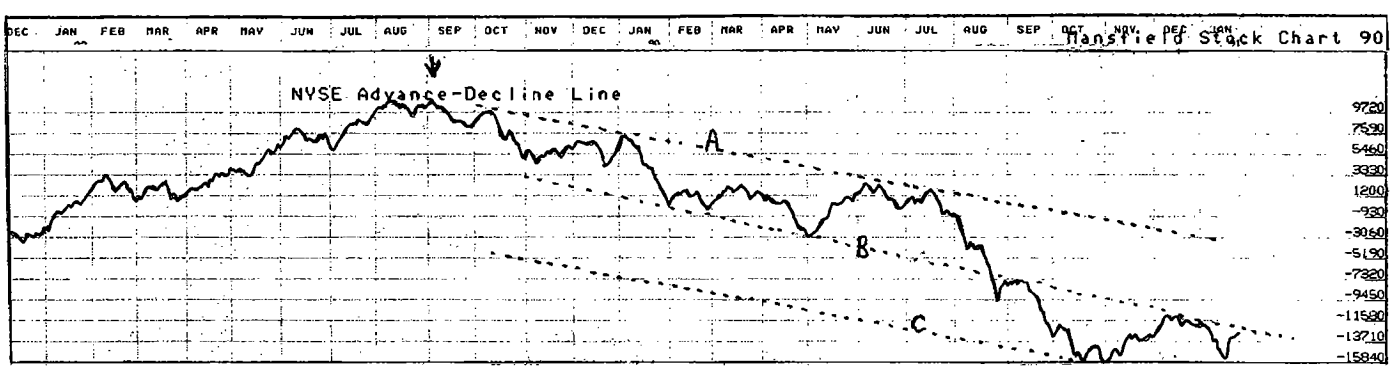
So remember this -- the bear is deceptive, he is sneaky, he's unconscionable, and he's an entirely different animal than the bull. And the bear's fondest dream is to take the market down with the greatest possible number of investors still hoping and holding stocks.

PERSPECTIVE: I want to include a few charts here, charts that I think will help to clarify the overall picture. The first chart (bottom of page 2, courtesy of *Mansfield*) deals with the advance-decline ratio (the A-D ratio is a proxy for the action of ALL the stocks on the NYSE). Here we see that the A-D ratio turned down in early-September 1989, and it has been declining within a down-channel (A-B) ever since.

In September 1990, the advance-decline ratio broke below the lower limits (B) of the original A-B channel, thereby forming an even wider and weaker declining channel (A-C). Note how feeble the most recent advance-decline rally has been -- the rally halted right at the original lower channel boundary at the B trendline, then turned down again. Currently, the A-D ratio is testing its extreme bear market low.

The second chart is a composite of three long-term charts going back to 1956 (courtesy of *Ned Davis Research*). The top section of the composite shows the Dow on a monthly basis. Here we see the great 1974-89 bull market in perspective. I have drawn a trendline connecting the 1982 and 1987 bottoms, and you can see that the Dow is now "riding" this very important trendline. A break to new lows (below Dow 2365) would decisively reverse the trendline to the downside, and you can almost feel the Dow fighting and struggling against such a break.





The middle section of the chart shows the trend of margin debt on the NYSE. It has been said that "the speculator's best friend is his margin account." In a bull market, traders and speculators become increasingly optimistic as the market pushes higher. As the traders turn more bullish (and greedy) they borrow more and more, and this shows in the rising margin totals.

But when a bear market takes over, the opposite occurs. In a bear market, the speculators start taking losses. As their losses increase, they reduce their margins or in many cases they simply get "knocked out of the box" via margin calls. At a bear market's low, margin accounts are far below the level seen at the previous bull market's peak.

Thus, the trend of margin accounts bears a very close correlation to the primary trend of the market. This being the case, it is most interesting to note that margin accounts on the NYSE topped out in 1987 at $44.1 billion. Since then, they have been dropping rather steadily, with the most recent figure showing a drop to a new low of $27.6 billion. The trend of margin accounts tells us that we are in a continuing primary bear market.

Finally, at the bottom of this triplet chart we see the trend of NYSE volume. Note that average volume peaked in 1987 before the crash, and it has been flat to declining ever since. Nothing like this leveling-off/declining trend of volume appears during prior years on this chart. What's happened is that the bear market has been hurting stock buyers and stock holders. As they get hurt, they pull back or pull out of the stock market. This shows in the level of volume on the NYSE.

As this bear market progresses, I would expect to see this process continue until near the ultimate bear market bottom I believe volume could easily drop to below 50 million shares a day. Volume trends, as in the case of margins, tend to correlate with the primary trend of the market.

HOW LONG, HOW LONG? Almost every time I pick up the newspaper or turn on the TV, I hear some guru or "name" economist give his opinion about how long and how deep this bear market is fated to be. The bulk of these predictions and crystal-ball forecasts are nonsensical -- or in many cases, they represent just plain wishful thinking. For the most part, it would have paid the forecasters to do a bit of research.

Can anyone provide a reasonable prediction as to how long a bull market or a bear market will last? The Dow Theory "rule" (based simply on observations and case histories) is that the primary trend is a law unto itself. Or, to put it differently, NEITHER THE DURATION NOR THE EXTENT OF A PRIMARY MOVEMENT (meaning a bull or bear market) CAN BE PREDICTED IN ADVANCE.

For instance, which of us ever dreamed in 1949 that that great bull market would last 17 years -- to 1966? Or which of us ever thought in 1972, with the Dow at 1036, that two years later the market would totally collapse and the Dow would smash to the 577 level? And again in late-1974 with the Dow at 577, who among us would have had the nerve (or prescience) to predict that the Dow would climb to 3000 in 1990?

So much for surprises (and the history of Wall Street comprises a long list of surprises). Let's examine some bull and bear relationships. The bull market which began in 1921 lasted eight years -- to September 1929. The bear market that followed, 1929-32, lasted three years or roughly one-third as long as the preceding bull market.

Following the drastic 1932 bottom, a new bull market began. The bull market of 1932-37 lasted five years. The bear market that followed, the 1937-42 bear market, lasted five years. So that bear market lasted fully as long as the preceding bull market (remember, the world was coming apart during 1937-42).

The bull market that grew out of WWII began in mid-1942. That bull market (1942-46) lasted four years. The ensuing bear market carried from 1946 to 1949, a bear market length of three years or three-quarters as long as the preceding bull market.

From the famous Dow 161.60 low of June 1949, a great bull market was born. The bull market of 1949-66 lasted an incredible 17 years, ending in February 1966. The bear market that started from the 1966 high carried to the end of 1974, a period of eight years. So the 1966-74 bear market lasted roughly half as long as the preceding bull market.

From the December 1974 low of Dow 577.60, the most recent bull market began. This bull market carried to an extended top that was three years in formation -- from 1987 to 1990. According to classic Dow Theory, a bull market ends at the point where the D-J Industrial and Transportation Average record their last confirmed highs together. That occurred on September 5, 1989. So let's say that the last bull market carried from 1974 to late-1989, a period of 15 years.

In other words, we had a 15-year bull market. That being the case, the odds (based on past history) suggest that the ensuing (current) bear market should last roughly one-third to one-half as long as the preceding bull market. If the current bear market lasts one-third as long as the 1974-89 bull market, we should be looking for a final bear market bottom around 1994. If it lasts half as long, we should be looking for a final low around 1996.

Now obviously, the above computations do not constitute a guarantee of anything, they are simply estimates or educated guesses, based on past case histories. Remember, "the market can do anything," and that means that this bear market could conceivably end in 1991 or in 1998. But the odds favor a bear market roughly one-third to one-half as long as the preceding 15-year bull market, and I'm using the one-third to one-half formula as our most reasonable guideline to the future.

Again, let me emphasize that it makes a lot more sense to try to IDENTIFY a bear market bottom than it does to predict when the bottom "should" arrive. Back in the 1970s, during that vicious bear market, I didn't know exactly when the bottom would arrive, but I was able to identify it when it finally arrived in late-1974. I might add that when I wrote my "Special Mailing" (the bear market bottom report which urged people to buy stocks) on December 20, 1974, I was widely disbelieved and even ridiculed. Investors had become SO BEARISH that they absolutely didn't want to believe or couldn't believe it when I stated that in my opinion the great bear market had finally hit bottom.

My bet is that the same thing will happen when this bear market sinks to its final lows. At that point, investors will have been so battered, so tricked and deceived, so discouraged -- that when the bottom finally arrives, they won't believe it or they won't even want to believe it. That's the way it is with big bull markets and big bear markets -- when they breathe their last, nobody believes it.

So I urge subscribers to remember this -- we had a mighty bull market from 1974 to 1989. For that reason, I don't think we should expect a little wimp of a bear market to follow. It would be lovely if it works out that way -- but I just don't think it's going to happen.

Now here's an important consideration that I want all my subscribers to keep in mind: extended bear markets such as 1937-42 or 1946-49 or 1966-74 are never one-way, easily-read descents to the ultimate bottom. They are always difficult, deceptive and convoluted. All those extended bear markets contained a number of exciting rallies and stomach-churning declines. In fact, if you study periods such as 1946-49 or 1966-74 you may be inclined to think in terms of a series of "mini-bull" and "mini-bear" markets all within an ongoing major bear market. And I'd be willing to bet that we'll see just this kind of action in the period ahead, and it will continue until (as in 1949 or 1974) the stock market declines to its final, high-yield, great value low. Such a low, a low wherein stocks represent "great values," could be years away.

Thus, the investor should really decide whether he wishes to trade the mini-bull market rises and mini-bear market declines that will accompany this bear market -- or whether he wishes to simply stay with T-bill or T-notes or comparable "safe" vehicles until the bear market sinks to its final lows.

My own experience with investors tells me that the average person would probably do better just staying on the sidelines until the bear market breathes its last. For instance, I think the average investor would be way ahead if he had sold out before the 1987 crash and simply remained in T-bills right up to the present time, rather than remaining in stocks or attempting to trade the market (the Dow at its high prior to the 1987 crash was 2722.42, almost 300 points higher than it is today).

But despite the preceding warning, I will try to say when I think the market is ready for a "worthwhile" or "tradeable" rally. In other words, I will say when I think a "mini-bull" movement is in the offing.

INVESTMENT POSITION: World War II was fought at a time when the US had very little federal debt. That war was financed with bonds and the debt rose mightily. Korea was no major financing problem, but then came Vietnam. President Johnson wanted guns and butter, and he never financed the war. The result: the succeeding generation was saddled with chronic inflation and a massive rise in federal debt.

Now comes the Persian Gulf war, and Mr. Bush has mmm, neglected to talk about financing. We'll fight the war, and finance it later (like Vietnam, maybe). But this time, unlike Vietnam, we're starting the war when we already have a $3 trillion deficit. How will it all work out? I'm not sure, but keep your eye on the dollar.

Between 1974 and 1989, we enjoyed a great bull market. Every great bull market ultimately builds a giant, credit-based speculative edifice. No one in the early stages of a bull market knows how high the edifice will grow. There's just no way of knowing "how high is high and how hot is hot."

In a bear market, the reverse holds true. In a bear market the speculative edifice invariably collapses, and no one knows whether or when one collapsing area will set off the next collapsing area. Events take place in bear markets that no one can see in advance. In a big bear market, whatever isn't held together with strong glue -- tends to come apart.

So with these thoughts in mind, I have decided that I want to recommend a position of top safety for my subscribers. And that means basically CASH IN SAFE PLACES. Safe places? Yes, and for utmost safety, I'm talking about Treasury bills and short-term T-notes, money market funds in T-bills and time deposits in the hard currencies such as Deutsche marks or Swiss francs.

For very conservative money market funds, you have United Services' US Treasury Securities Cash Fund (1-800-873-8637) and Benham's Capital Preservation Fund (1-800-321-8321).

I think most of my older subscribers know that I do not advocate trying to "beat the bear." The fact is that if you had invested in T-bills at the 1987 high, you would have been better off (at this point) then you would have been had you invested in any of the major averages or in a diversified portfolio of stocks.

Being invested AGAINST the primary trend is a tricky business for professionals. For the average hard-working investor, it is a ticket to trouble. Many of my subscribers didn't believe this when I first started writing about this bear market. A lot of them believe it now.

NOTES and QUOTES: War: As a former bombardier with the 12th Air Force during WWII, I must say I'm impressed and fascinated with the amazing pin-point bombing that is being done by the allied forces. On January 18, Air Force General Horner showed films of bombs being projected literally through the doors of bunkers -- unbelievable. During WW II we were lucky to drop our bombs within 75 or 100 yards of the intended targets.

Another thing has changed in the 45 years since WWII. I flew in combat with the cover of many black fighter pilots. And these guys were good. I also had among my AAF flying buddies many Southerners. A big point of contention was whether one should salute a black officer. Many Southerners (and Northerners, for that matter) swore that they would never salute a black officer, even though the official military line was that "one salutes the uniform, not the man."

I would go out of my way to salute any black officer. I felt badly for them, for these men were all college graduates, they had gone through tough training, yet they were separated into their own groups, and they were obviously under great pressure to prove themselves. I often asked myself why I would go out of my way to salute a black officer. My answer to myself was that I was damn well saluting both the man and the uniform. But to be honest it was embarrassing, for I always suspected that the black officer (who, of course, would salute back) was thinking, "This white officer is just trying to make me feel good. I almost wish he hadn't seen me."

Today, America's highest-ranking military officer is a black man. And today, can you imagine any man in the military not saluting General Colin Powell? Can you imagine anyone in the military or any politician complaining (in public) because the chairman of the Joint Chiefs of Staff is a black? So in this area, times have changed for the better. And for me, a great embarrassment has passed.

* *

CNN: Boy, do I like that channel. It's exciting to realize that the 24 hour news channel is seen on TV screens around the world. Talk about globalization! I was amused to see the US generals state that they learned about the effects of the initial bombing of Iraq by watching CNN. The change: more and more Americans are watching TV for the news and therefore reading newspapers less.

When I was a kid NYC had all kinds of newspapers, the *Herald Tribune*, the *NY Times*, the *Daily News*, the *Mirror*, the *Post*, the *World*, the *Telegram*, the *Sun*, and a few more. One by one they've closed down. Now it's the tabloid *Daily News*, once America's largest circulation newspaper, that will either be closed or sold. When I was a kid the first thing I did Sunday morning was run out to buy the *Daily News*. The price was a nickel, and it had Dick Tracy on the outside (the comics were always on the outside in those days). I hate to see a newspaper close down. I hope somebody will buy the *Daily News*, but I'm afraid it could be a goner.

* *

Sometimes when I review one of my Letters I ask myself, "Shouldn't I be more upbeat? Shouldn't I concentrate on what's bullish and positive?" But then I tell myself that this is a primary bear market, and that in fairness to my subscribers, I should just "tell it like it is" (which means the way I see it). After all, you can read all the hopes and wishes and fairy tales you want in the magazines and newspapers and brokerage reports.

It reminds me of something Harry Truman said when he was asked, "Harry, aren't you tired of giving this nation hell?" "Listen," the President snapped, "I just tell 'em the truth, and they call it hell!"

But never mind. I was the only bull around at the 1974 bottom. And one of these days, I'll be the only bull around again.

* *

On January 9, Pan American World Airways filed for bankruptcy, and I was particularly sorry to hear the news. One of my old subscribers (he died a few years ago) was a founder of Pan Am. He was a fabulous fellow -- General Merian C. Cooper. When he was alive, I used to talk to General Cooper about once a month. When the General first called on the phone I must admit I thought

he was a kook. Cooper told me that he had been General Clair Chenault's (of the famous Flying Tigers) Adjutant in China-Burma-India (Cooper was an Army Air Force general). Furthermore, said Cooper, he originated the King Kong script, developed and then produced the original movie in 1934. Cooper was also one of the founders of Pan Am. As I said, at first I thought Cooper was a nut. But I looked up Cooper in "Who's Who" and every last word he told me was true. So last week when I heard the news of Pan Am, I immediately thought of the General. He was really a most amazing man.

* *

Now It Can Be Told Dept: With the flagrant attack on Lithuania, Gorbachev's true colors emerged. Gorby is still a Communist, and he still wants the Communist party to rule the Soviet Union. He is willing to use force to prevent moves to independence on the part of the Soviet satellites. Finally, he still believes that some sort of modified socialism can work. Gorbachev claimed that he slept through the Red Army attack on Lithuania. So the question is, "Has Gorbachev lost faith (assuming he ever had any) in the democratic process, or has he lost control of the military?" Note: according to Reuters, there are still 10,000 men and women employed by the KGB.

* *

Quote of the week (from the Jan. 13 *NY Times* article, "Banking's Real Estate Miseries"): "Imagine every office building in Manhattan empty, a commercial ghost town. That's how much vacant space -- 500 million square feet -- there is in the United States today. Behind much of that empty space stands the nation's banking system."

* *

In the last Letter I included a few of my observations about Saddam Hussein. I thought my views were (interestingly) fortified by the front page article in the Jan. 16 *Wall Street Journal*. Here are a few quotes: "When the UN Secretary General talked with Saddam, he said 'Saddam seemed detached from the crisis at hand, uninterested in anything his visitor had to say, and even unable to focus on issues he himself had previously stressed' . . . 'No one seems able to reach Saddam, no matter what tack they take' . . . 'Veteran Saddam watchers also notice odd changes in the Iraqi president's demeanor: His speech often seems slow, his face puffy, and his eyes unfocused.'" Russell comment: I believe the reason no one can understand or figure out what Saddam is thinking is because Saddam is schizoid, he relates mainly to his own inner thoughts and fantasies. Now it can be seen how badly Saddam misjudged the military power of the allied forces. What will Saddam do now that his armies are being destroyed? It's a fascinating question, but somehow I can't envision him saying, "I surrender, unconditionally."

* *

The Japanese don't like lawyers, and recently they literally barred any more American lawyers from opening up offices in Japan (if an American law firm wants to open in Japan, it must open under a partner's name, not the name of the law firm). The Japanese have only one bar exam a year. Get this -- last year more than 24,000 people took the Japanese bar exam. About 400 were admitted to the bar, less than 2%. Comparison: Japan has one lawyer for every 9,000 people. The US has one lawyer for every 355. Item: most Japanese feel that it is a loss of face to use a lawyer, that to use a lawyer means that one's honor must have been violated. Or that one's word must have been broken.

* *

Safety: Last week from out of a blue sky I received a book in the mail entitled The Iron Stallion. The book was put together by Rafael Carmona and it's dedicated to Malcolm Forbes. It's a love-tome to Harley Davidson motorcycles -- and safety. In the book, 98 Harley riders are interviewed with a picture of each on his or her bike. Each person was asked, "What do you think about when you ride? Why do you ride? Why do you ride a Harley?" Most of the riders have been riding for 10 to 20 years, and they're all alive, which, believe me, is a feat. I've been riding for 45 years, and I don't know what I'd do without my bikes. But I can tell you that if you want to stay alive and in one piece riding bikes, you better learn **SAFETY** with a big capital **S**. Each of these riders talk about safety and what they do to stay healthy. I found the interviews fascinating and educational. The book is a beauty. If you ride a motorcycle or ever wanted to -- I recommend this book. Furthermore, if you drive a car and you want some priceless, authentic tips on real safety, read this book. (The Iron Stallion, Hirschberg Publishing, 11110 Ohio Ave., Suite 104, LA, CA 90025, $39.95).

* *

The new census report was interesting. To me, one of the most interesting facts brought out was that the top fifth of the population (in wealth) showed a median net worth of (only) $111,770. That's the best that the top fifth in the US can show? I was really surprised. Then the lower 80% of the nation can hardly have much in the way of savings or net worth. The truth -- my guess is that the top 5% of the nation possesses the great bulk of this nation's wealth. And I imagine the lower 50% of America's population is in debt or heavily in debt.

* *

Many of America's states and cities are running big deficits. These quotes are from recent speeches given by leading politicians: "The immediate goal is to live within our means, closing the gap between what we would have proposed to spend and our diminished resources." Gov. Cuomo of NY . . . "A deficit has taken control of our lives, coloring all else as it climbs beyond our comprehension, sapping our confidence and humbling our visions." Gov. Weicker of Connecticut . . . "Our economy has contracted at a breathtaking pace, and it shows no sign yet of recovery. Thousands of city employees will lose their jobs in coming months because the size of our government must fit the size of our rapidly declining economy." Mayor Dinkins of NYC.

* *

Note: I still get dozens of letters from subscribers who seek personal investment advice. I can't give it. I have 8,000 subscribers, and if I made a practice of dispensing personal advice I wouldn't have time to read, to think or to write these Letters (and honest, the Letters require a good deal of thinking, reading and research). However, I do appreciate the informative letters, articles and newspaper clips that I receive from subscribers each day. This vast amount of reading matter constitutes an extremely valuable source of information for me. Much (most) of it consists of items that I would never have seen if it had not been sent by you, my kind and thoughtful subscribers.

* *

What about GM's highly-touted new Saturn cars? From the pictures, I've got to say that I wasn't thrilled. The leading car magazines aren't thrilled either (although they tried to be kind). My old friend, Doug Casey, (he publishes the *Crisis Investing* report) wasn't even kind. He writes in his latest letter, "Just as a side bet, I'll lay odds GM's multibillion dollar investment in Saturn will be a loser; the car was designed to catch up with the Japanese, and what do you know, it's every bit as good as Japanese cars were in 1985."

* *

The following is from subscriber Don Robinson, who wants to eliminate all taxes and instead, institute one efficient national sales tax. "In 1940 the maximum (annual) Social Security anyone could pay was $48 (self-employed). Today that person's counterpart can pay a tax of $10,246, a multiple of 213.5 times. A married couple (both self-employed) can pay as much as $20,492 BEFORE they pay their local, state and federal taxes. Adding insult to injury, this $20,492 for Social Security is classified as "taxable income" and in a combined (33%) tax bracket has a true cost of $30,585 . . . In 1934 the federal government collected $3 billion in income taxes. This year, it will skim off $1.026 trillion, 342 times more." Russell comment: You can see why our Congressmen and Senators are not part of the Social Security system.

* *

How are the corporations doing? Mmmm, during 1990 S&P lowered corporate debt ratings at nearly double the rate of 1989 (and 1989's 419 lowered debt ratings was a record). Leo O'Neill, President of the S&P Ratings Group, stated that the 1980s "were a decade of lost opportunities." He added that "this year will be a critical test to determine whether the decade-long deterioration of credit quality in the 1980s continues." So far, it seems to be continuing.

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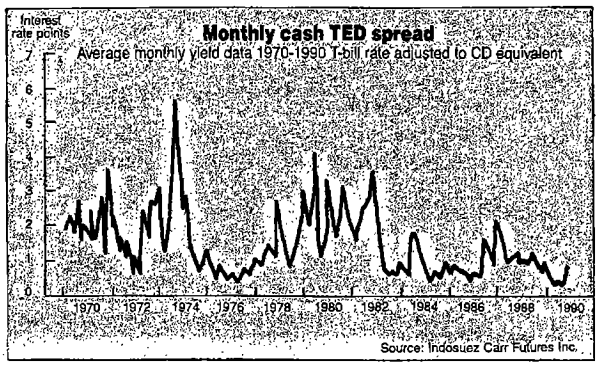
TED: The so-called TED spread is perhaps one of the best current gauges of market sentiment. This is the spread between the very safe Treasury bills and the less safe but higher-yielding Eurodollar

(Eurodollars are simply dollars that are overseas floating around or invested in something other than T-bills). Speculators using the TED spread almost always put the spread on using the commodity futures.

When investors are fearful, they tend to move out of the higher-yielding Eurodollars to the safety of T-bills. Thus, the level of the TED spread has been a measure of investor fear/confidence. This chart shows the TED spread going back to 1970. Note that each major rise in the spread has been lower than the preceding -- which I find very significant. The fear quotient of the TED spreaders has been declining over the years.



Recently, with the banking system in disarrayand the threat of war hanging over the nation, the TED spread has held at a surprisingly low level. Why? Here's what I think has been happening. I think today's investors have a stubborn faith that the government and the Fed will hold a safety net under almost all major potential disaster areas.

Is the market wrong? Can the government hold a big bear market together with a system of safety nets and the use of tens of billions of dollars? So far, the perception of TED spread buyers is that the government will continue to bail out the major bankrupt players and that the government will be able to contain almost any degree of emergency. That seems to be the verdict of the TED spread. In due time, we'll see whether the complacency of the TED spread buyers is justified.

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What's the fastest growing state? Why, it's the "no-income tax" state -- Nevada. The state's population is up 50.3% over the last 10 years to 1.2 million. Las Vegas holds 62% of Nevada's population. And taxes on gambling provides much of the state's income.

New hot spot: Carved out of the desert on the edge of the Colorado River is the booming town of Laughlin, Nevada. Californian s are being beseiged by ads heralding Laughlin's wonders. And Laughlin is indeed a bargain spot. As I write this, I'm looking at an ad for the Edgewater Hotel and Casino -- all rooms $19 including weekends through January 17. On the same page, the Flamingo Hilton in Laughlin offers three days and two nights plus two lunch buffets for $20 per night. How can you beat it? And I don't gamble. But note this -- gaming revenue in Laughlin was $40 million in 1981. It was $349 million in 1989.

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Speaking of costs, here are the most expensive big cities in the nation, figures based on a family of four with two cars and a 2,400 square foot home: San Francisco $87,730; LA $80,764; NYC $76,870; San Diego $72,993; Washington DC $72,816; Boston $72,027; Phila. $67,219; Chicago $65,310.

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In the US, the deflation in real estate prices continues. In November, the median price for an existing single-family home fell to $91,300. This was the FIRST year-to-year drop in price since the National Assoc. of Realtors first began keeping track of home prices in 1968.

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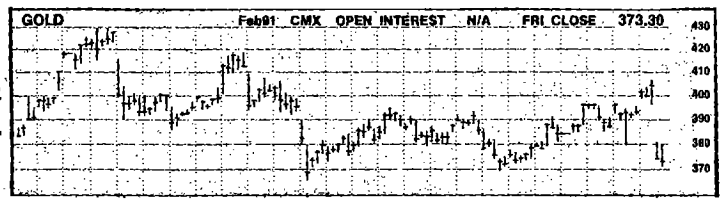
Saddam's "strategy" is now clear enough -- take the big hits, take the big bombing, take the big casualties, but dig in and hold on and outlast those "Vietnam-battered" Americans (can't you see Saddam watching CNN and smiling at all those myriad anti-war demonstrations). Saddam is convinced that the Americans will not stand for (1) a long war, and (2) high casualties. Washington and the military know that too. The Bush Administration is looking for a two to three month war, and I hope they're right. If the war extends to six months or longer, George Bush will be going the way of LBJ.

GOLD: If you've been holding gold as a speculation, you undoubtedly remember the old Richard Russell poem. It's short and it goes like this: "Gold, gold, you're making me old. Gold, gold, should I hold or fold?" End of poem.

But if you're holding gold as an insurance policy, if you're holding gold coins as the only form of true money, then you're getting used to all these rallies and collapses, all these rumors and fables, and by now, you've probably stopped even looking at the daily quotes.

The support for gold comes in at around 375-380 and the resistance come in at 400 and above. Between those two levels, a lot of talk, hopes, wishes, despair and nonsense goes on. All of which adds up to guess what -- nothing.

This chart from *Investor's Daily* shows you the gold picture. I've outlined the trading range. Somebody's been buying at 375 and selling at around 400. They've been doing well. For the rest of us, gold is insurance, and at least we don't have to worry about the solvency of this particular insurance policy.



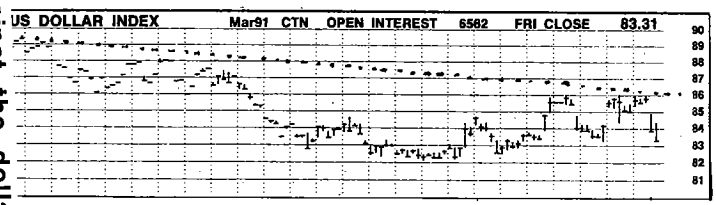
LATE NOTES: The upside market explosion of January 18 and 19 was like the escape valve on an overheated boiler. The Dow closed up 137 points over the two days with huge upside gaps forming in both Industrials and Transports. On the news of the extraordinary allied air force successes and the hopes for a short, triumphant ending to the war, buyers poured into the market and terrified short sellers rushed to cover.

Is it a new bull market? Will the war be over in a matter of weeks? Are America's problems solved? Will the S&Ls and banks and insurance companies become solvent? Will real estate prices turn up? Will commercial vacancies disappear? Have America's deficit and debt problems been solved?

Well, not exactly, but come on -- give the public and the institutions and Wall Street a break! A break from months of worrying, a break from a crushing collapse in stocks during July to October, a break from all that "darn doom and gloom" that has been building up relentlessly.

There's nothing as explosive as a good old fashioned bear market rally. The explosiveness of the rise is due mainly to fear -- fear on the part of buyers that they'll miss the move, and fear on the part of shorts (who are covering) that they'll be wiped out. As I've said so many times in the past, "Bear market rallies come suddenly and unexpectedly, and they often look better than the real thing."

Watch the dollar here; it may be telling us as much about the economy's future as anything else (and don't miss the roundtable in the January 21 *Barron's,* particularly the views of Paul Tudor Jones (in my opinion one of the best minds on Wall Street or anywhere else).



NEXT MAILING: February 6

FLASH: As this is written Swiss Franc (Feb Contract) is over 80.00. Could be ready to move to a new high against the dollar!